

# **Fiscal Realities: The State Budget in Context**

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# Detailed SIX YEAR OUTLOOK based on Enacted 2005-07 Budget -- June 2005

Dollars in Millions	2004	2005	2003-05	2006	2007	2005-07	2008	2009	2007-09
Beginning Balance General Fund-State (GF-S)+Emergency Reserve Fund (ERF)	405	500	405	977	636	977	628	151	628
<b>Revenue (June 2005 Forecast)</b>									
Baseline	11,321	12,214	23,535	12,177	12,854	25,031	13,497	14,172	27,668
Money Transfers, Federal Fiscal Relief, CAFR Adjustments	226	471	697	132	87	219			
New Revenue (including suspension of I-728 property tax diversion increase)		10	10	99	208	307	28	30	58
Budget Driven Revenue		1	1	20	26	46	25	25	50
<b>TOTAL REVENUE/RESOURCES (except beginning balance)</b>	<b>11,547</b>	<b>12,697</b>	<b>24,244</b>	<b>12,428</b>	<b>13,175</b>	<b>25,604</b>	<b>13,550</b>	<b>14,227</b>	<b>27,776</b>
<b>Expenditures</b>									
Baseline Expenditures (Maintenance Level, less I-732 COLAs and Pension Changes)	11,452	11,794	23,246	12,346	12,539	24,885	12,657	12,777	25,434
Enacted 2005 Supplemental Budget		426	426	-	-	-	-	-	-
K-12 Teacher/Staff and CTC COLA (I-732 formula - 1.2%, 1.7%, 2.5%, 2.2%)				41	109	150	282	390	672
Pension Contributions, including K-12 schools (increase over 2003-05)			-	53	114	167	438	499	937
Employee Health Insurance (state government, higher education, K-12)-11.3% annual growth (10% per capita)			-	102	146	248	124	262	386
Medical Assistance -- 9.3% total annual growth (8% per cap)				-	-	-	148	311	459
State Employee Compensation Changes (3.2%, 1.6%, 2.0%, 2.0%) *				78	122	200	143	200	343
Other Policy Adds				148	154	302	233	202	436
<b>TOTAL EXPENDITURES</b>	<b>11,452</b>	<b>12,220</b>	<b>23,672</b>	<b>12,769</b>	<b>13,184</b>	<b>25,952</b>	<b>14,026</b>	<b>14,642</b>	<b>28,668</b>
<b>ENDING BALANCE (GFS+ERF) - Cumulative</b>	<b>500</b>	<b>977</b>	<b>977</b>	<b>636</b>	<b>628</b>	<b>628</b>	<b>151</b>	<b>(264)</b>	<b>(264)</b>
<b>SUMMARY OF POTENTIAL BUDGET GAPS</b>									
Potential GF-S Budget Surplus/(Deficit) (from projected ending balances)				636	628	628	151	(264)	(264)
Provision for GF-S Reserve							(300)	(300)	(300)
<b>TOTAL POTENTIAL GAP</b>							<b>(149)</b>	<b>(564)</b>	<b>(564)</b>
Added Cost for K-12/CTC I-732 COLA due to increase of Seattle CPI from 1.7% to 3.4% for FY 2007					56	572	(205)	(620)	(620)

## BASELINE AND OTHER ASSUMPTIONS

Assumes the enacted 2005-07 budget

Baseline for 2005-07 includes MAA expenditures. For 2007-09, MAA increment is displayed separately.

After 2005-07, baseline is increased by 1.2% annually, reflecting OFM projected growth of maintenance level, excluding pensions, COLAs, and health care (based on OFM long term model, which relies on caseload council and OFM population cohort forecasts).

I-732 COLA assumes June Seattle CPI Rates for FY 2008 and FY 2009

Assumes June 2005 revenue forecast for 03-05 and 05-07; after 05-07, assumes 5% annual revenue growth (average long term growth)

Medical Assistance: Assumes 9.3% annual health care growth, including 8% inflation and 1.3% population growth after 2005-07.

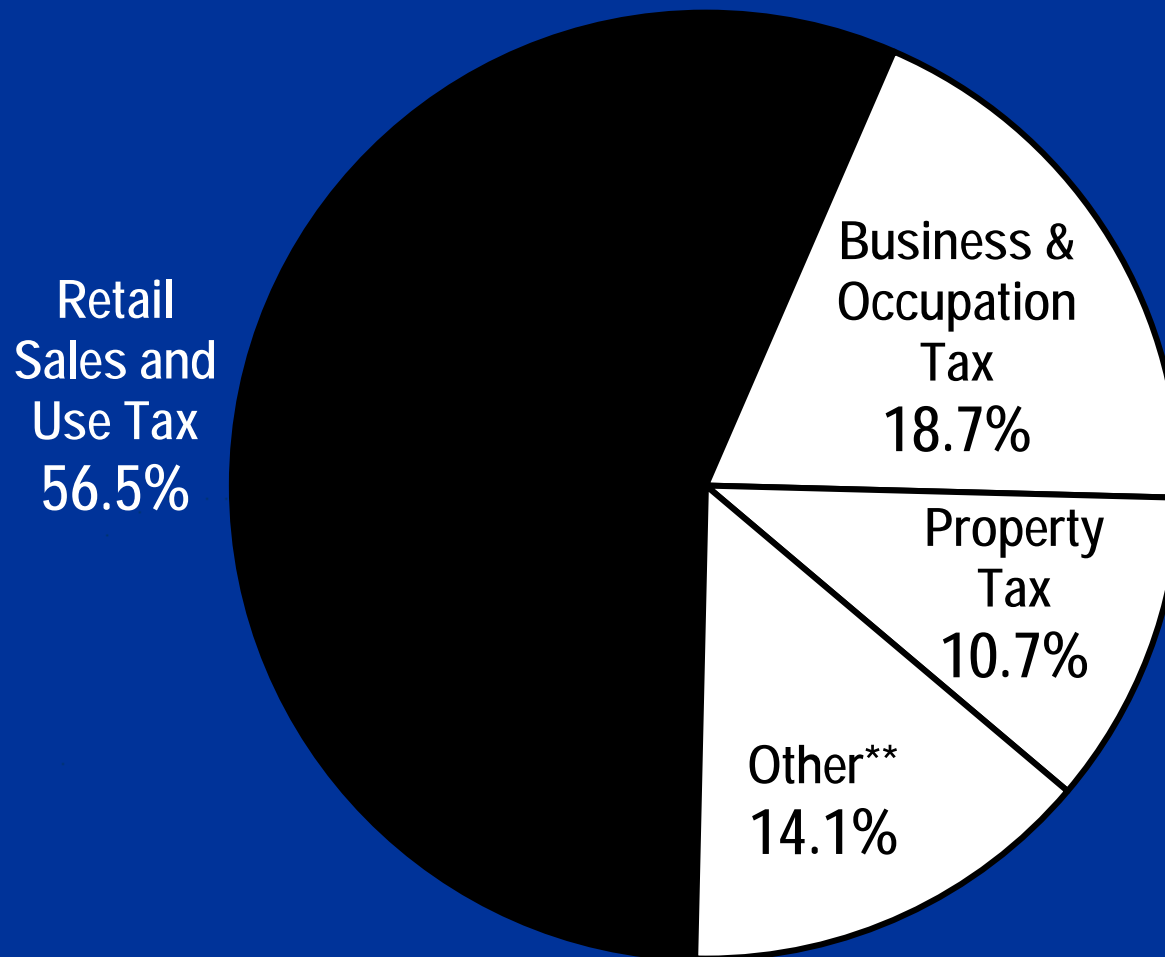
Employee Health Insurance: Assumes 11.3% annual health care growth, including 10% inflation and 1.3% population growth after 2005-07.

Does not include HSA/BHP expenditures and revenues.

\* The Second Year 1.6% COLA is assumed to be one-time, per negotiated contracts

# Sources of General Fund-State Revenue 2005-07

(Biennial Estimate)\*

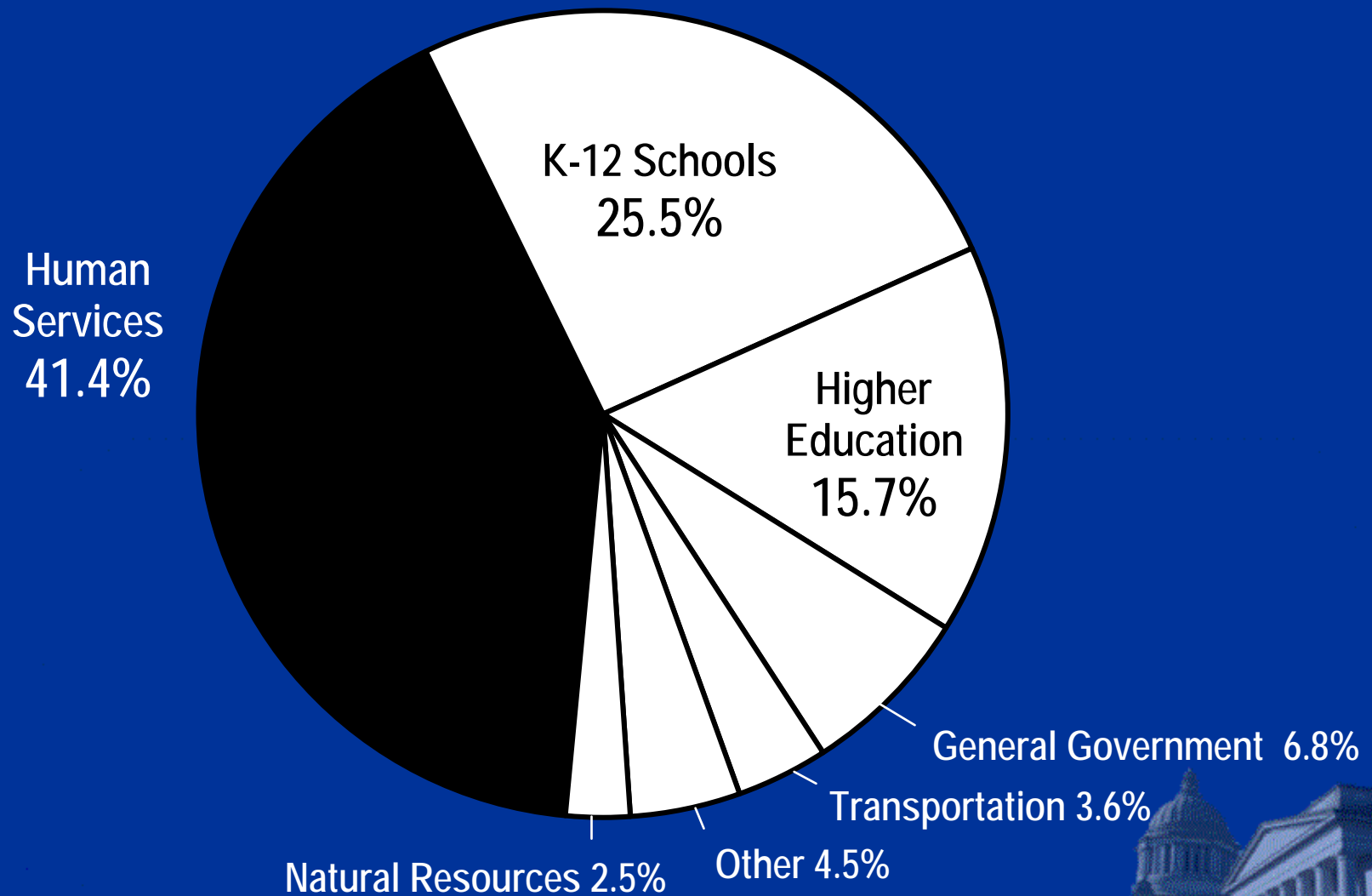


\* Based on the March 2005 Revenue Forecast.

\*\* "Other" includes revenue from real estate excise tax, liquor sales, tobacco taxes, lottery proceeds, and insurance premiums.

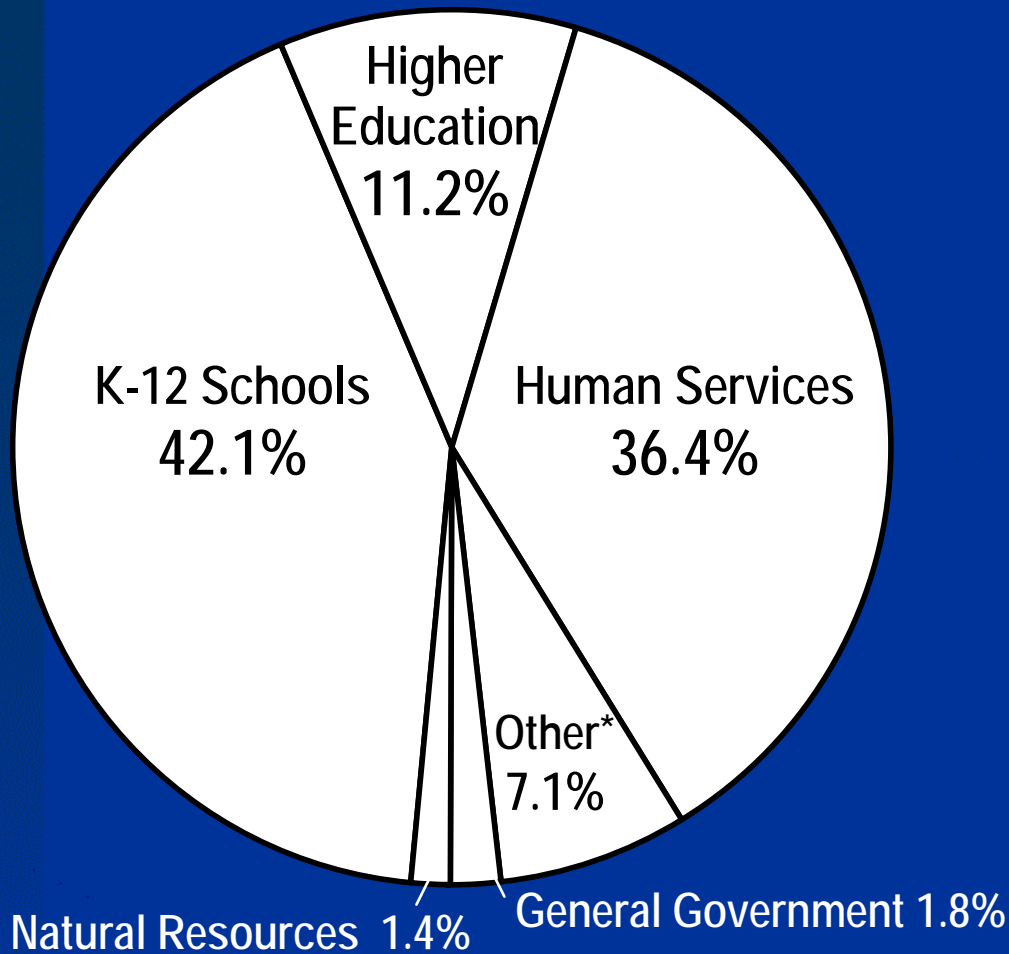
# Distribution of 2005-07 Operating Budget

(All Budgeted Funds) TOTAL = \$51.7 Billion



# Distribution of 2005-07 General Fund State Budget

(Dollars in Millions)



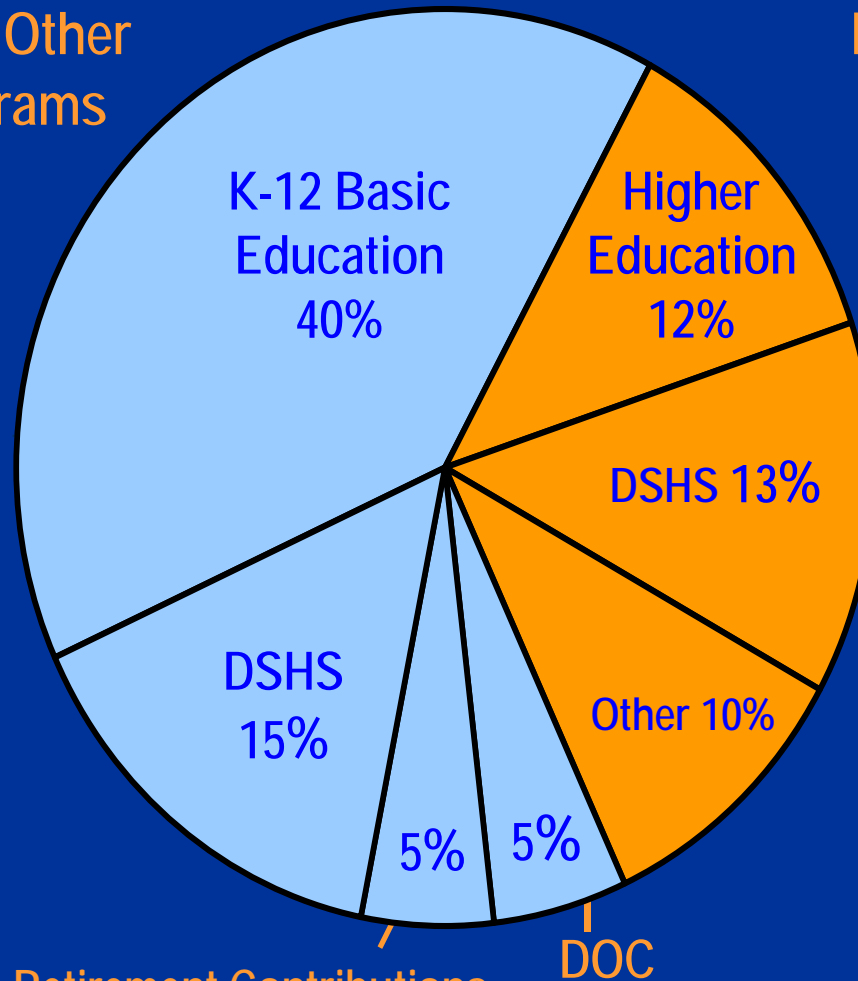
K-12	\$10,915
Higher Education	\$2,900
Human Services	\$9,459
Other Expenditures*	\$1,618
General Government	\$693
Natural Resources	<u>\$367</u>
	\$25,952

\* "Other" includes debt service, pensions, transportation, other education, and special appropriations.

# Portion of General Fund-State Budget That Could Be Considered “Discretionary”

Entitlements and Other  
Mandatory Programs  
Total = 65%

Discretionary  
Programs  
Total = 35%



Debt Service & Retirement Contributions

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# Components of Expenditure Growth

Budget Drivers =



EXAMPLE: MEDICAL ASSISTANCE

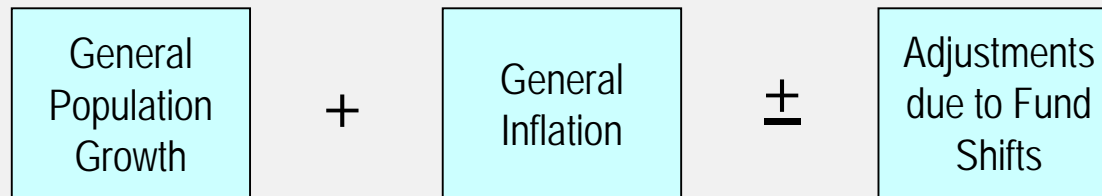
Ages 18 – 39  
Females and  
other age groups

Medical Services  
Inflation

Factors Affecting  
Enrollment  
(e.g., Economy)

Changing  
Eligibility  
Criteria

I-601 Spending Limit =



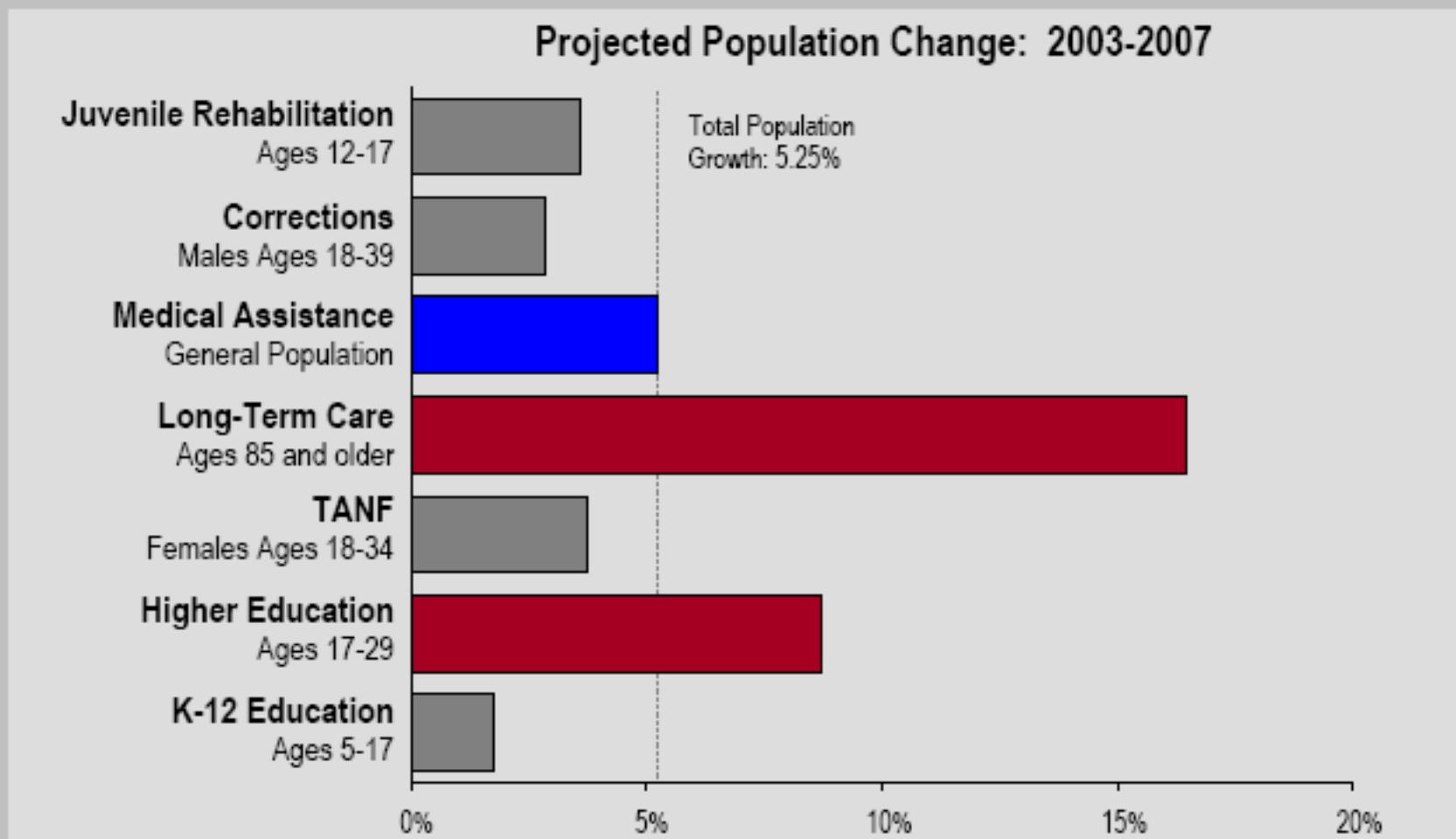


# **Main population groups served by state government:**

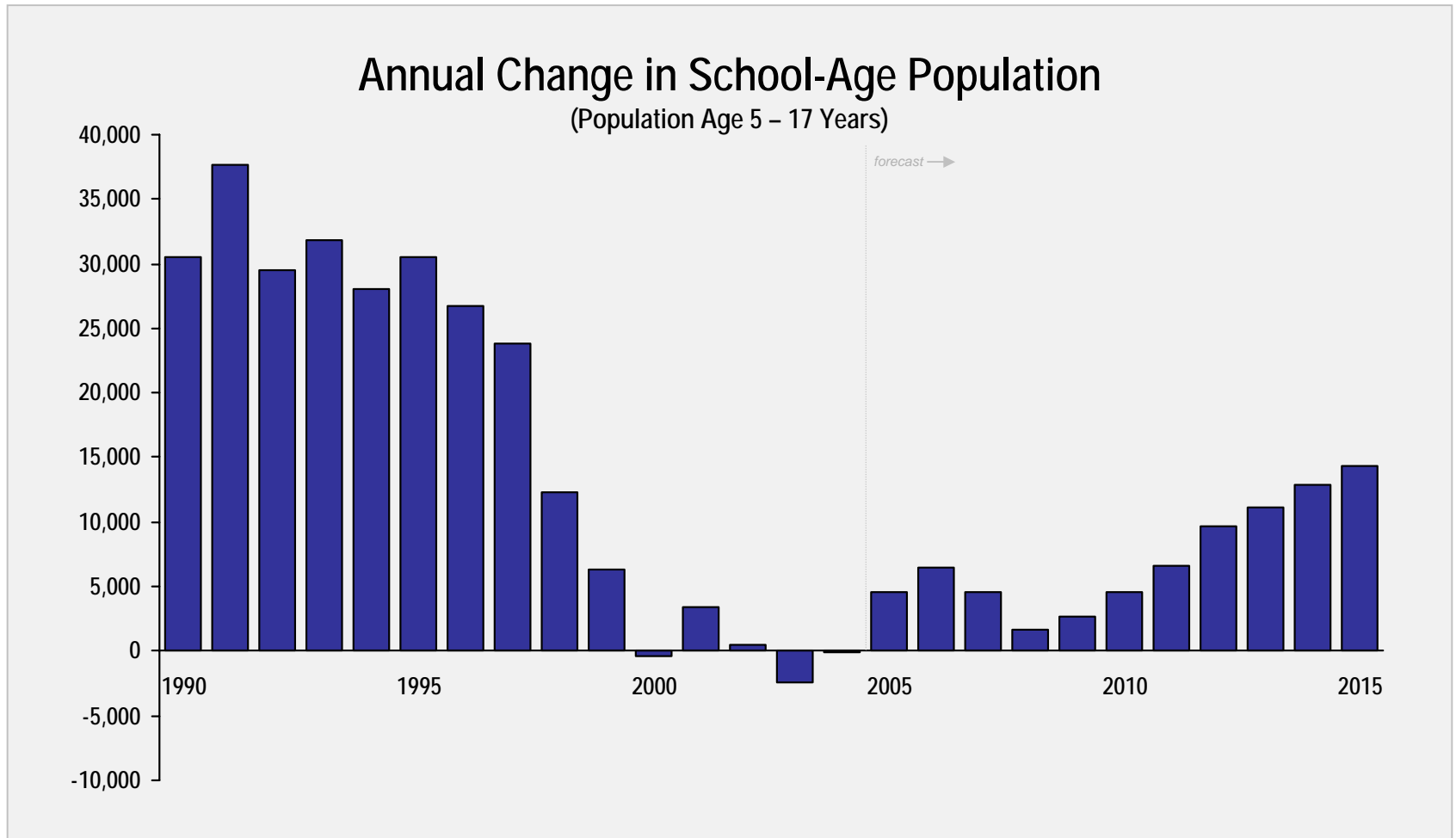
- **Ages 5 through 17**                      **K-12 School**
- **Ages 17-22 and 23-29**              **Higher Education**
- **Ages 12-17**                              **Juvenile Rehabilitation**
- **Males 18-39**                            **Corrections Population**
- **Females 18-34 and children under 18**      **TANF (Income Assistance)**
- **General population**                      **Medical Assistance**
- **Ages 85 and older**                      **Long-Term Care (Nursing Homes)**



Altogether, medium-term population pressures are high in Long-Term Care and Higher Education, but low for other major state government programs.



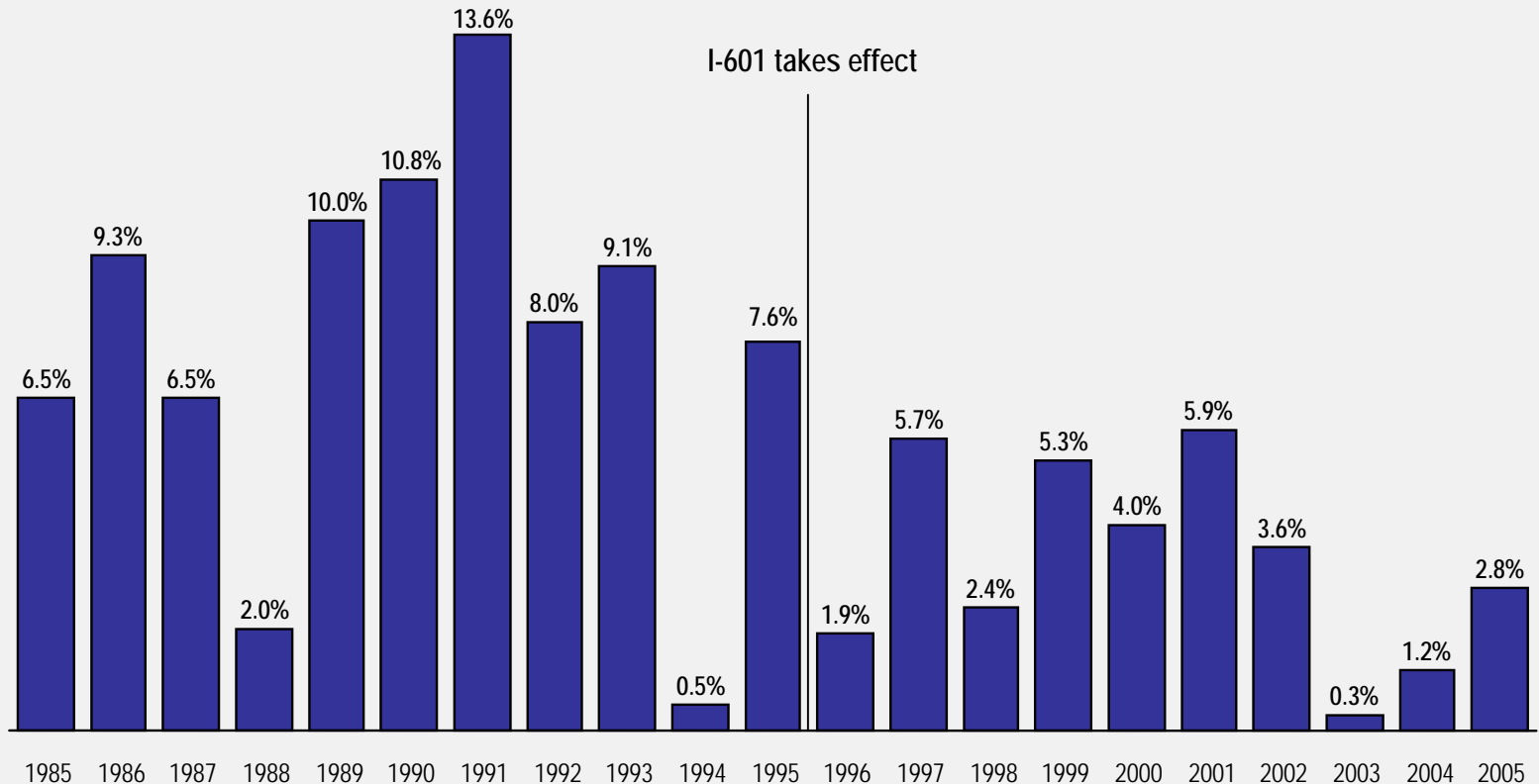
However, K-12 enrollments are forecast to surge again after 2008.



**In addition to health care “inflationary” pressures, policy pressures across several major programs are high.**

	Percent of Budget	Demographic Pressures	Inflation Pressures	Policy Pressures
Higher Education	12.3	High	High	High
K-12 Education	43.5	Low*	-----	High (class size, COLAs)
TANF	6.8	Low	-----	-----
Medical Assistance	9.5	High (aging of the population)	Very High	High
Long-Term Care	4.6	High	-----	-----
Prison	5.3	Low	-----	-----
Juvenile Rehabilitation	0.8	Low	-----	-----
*Demographic pressures for K-12 will begin to accelerate in FY 09.				

# Growth in State General Fund Expenditures



Fiscal Year

Strong economy, increased spending on health care and education

Smaller growth in government spending due to economic slowdown

Economy recovers, Initiative 601 takes effect, slowdown in spending, tax reductions